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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 04/01/12 AND ENDING 03/31/13 ~~Y~~
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Instinet, LLC**

| OFFICIAL USE ONLY |
|-------------------|
| FIRM I.D. NO. |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1095 Avenue of the Americas

(No. and Street)

New York

New York

10036

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Nathalie Cahlik-Leroy, 212-310-4122

(Area Code -- Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young, LLP

(Name - if individual, state last, first, middle name)

5 Times Square

New York

New York

10036

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

| FOR OFFICIAL USE ONLY |
|-----------------------|
| |

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OP
6/10/13

OATH OR AFFIRMATION

I, Nathalie Cahlik-Leroy, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Instinet, LLC of March 31st, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

[Handwritten Signature]

Signature

CFO, Instinet, LLC

Title

[Handwritten Signature: Caroline V. Burgonio]

Notary Public



This report ** contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

SEC
Mail Processing
Section
MAR 31 2013
Washington DC
USA

STATEMENT OF FINANCIAL CONDITION

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)
March 31, 2013
With Report of Independent Registered Public Accounting Firm

Ernst & Young LLP

 **ERNST & YOUNG**

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Statement of Financial Condition

March 31, 2013

Contents

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Report of Independent Registered Public Accounting Firm

To the Member of
Instinet, LLC

We have audited the accompanying statement of financial condition of Instinet, LLC (the "Company") as of March 31, 2013, and the related notes to the statement of financial condition.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the statement of financial condition in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a statement of financial condition that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement of financial condition based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statement of financial condition in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Instinet, LLC at March 31, 2013, in conformity with U.S. generally accepted accounting principles.



May 29, 2013

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Statement of Financial Condition

March 31, 2013

Assets

| | |
|----------------------------------------------------------------------|-----------------------|
| Cash and cash equivalents (includes \$6,700,000 of restricted cash) | \$ 106,683,142 |
| Cash segregated in compliance with federal regulations | 1,100,000 |
| Securities borrowed | 26,287,000 |
| Receivable from broker-dealers and clearing organizations | 179,837,170 |
| Receivable from customers | 127,929,620 |
| Transaction fees and other receivables, net of a \$917,543 allowance | 42,077,638 |
| Receivable from affiliates | 10,955,712 |
| Deferred tax assets | 7,647,001 |
| Other assets | 7,380,935 |
| Total assets | <u>\$ 509,898,218</u> |

Liabilities and member's equity

| | |
|------------------------------------------------------|--------------------|
| Securities loaned | \$ 60,965,200 |
| Payable to broker-dealers and clearing organizations | 123,127,742 |
| Payable to customers | 47,187,727 |
| Accounts payable | 43,463,818 |
| Accrued compensation | 25,637,636 |
| Payable to affiliates | 8,432,073 |
| Accrued expenses and other liabilities | 16,998,249 |
| Total liabilities | <u>325,812,445</u> |

Commitments and contingent liabilities

| | |
|---------------------------------------|-----------------------|
| Total member's equity | <u>184,085,773</u> |
| Total liabilities and member's equity | <u>\$ 509,898,218</u> |

See accompanying notes.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition

March 31, 2013

1. Nature of Business

Instinet, LLC (the “Company” or “Instinet”) is a wholly owned subsidiary of Instinet Holdings Incorporated (“IHI” or “Member”), which is ultimately owned by Nomura Holdings, Inc. (“NHI”).

The Company is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). FINRA is the Company’s designated examining authority.

Additionally the Company is a member of BATS Y-Exchange, Inc., BATS Z-Exchange, Inc., BOX Options Exchange, LLC, Chicago Stock Exchange, Chicago Board Options Exchange, C2 Options Exchange, Incorporated, CBOE Stock Exchange, EDGA Exchange, Inc., EDGX Exchange, Inc., International Securities Exchange, Miami International Securities Exchange, LLC, NASDAQ OMX BX, Inc., NASDAQ OMX PHLX, Inc., the NASDAQ Options Market, the NASDAQ Stock Market, National Stock Exchange, the New York Stock Exchange, NYSE MKT LLC and NYSE Arca, Inc.

Further, Instinet is a futures commission merchant registered with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”).

Instinet is a global electronic agency securities broker which offers sales trading support, sophisticated trading tools and advanced technology to institutional customers for the execution of their securities orders in global market centers or with other customers. The Company’s customers may also trade outside traditional market hours and obtain select independent third-party or related party research. Instinet acts as a clearing broker for its customers, provides securities clearance, customer financing and securities lending services.

2. Significant Accounting Policies

Accounting Estimates

The preparation of the Company’s statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the statement of financial condition and accompanying notes. Management believes that the estimates used in the preparation of the statement of financial condition are prudent and reasonable. Actual results could differ from those estimates.

Instinet, LLC
(A Wholly-Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2013, cash and cash equivalents included \$92,837,656 invested in money market mutual funds defined under Rule 2a-7 of the Investment Company Act of 1940 and money market deposits held at four major U.S. financial institutions which, at times, may exceed federally insured limits. As these money market funds are valued based on quoted net asset values, the carrying value of these instruments at March 31, 2013 approximated fair value.

The Company also has \$6,700,000 of restricted cash fully securing three letters of credit. These three letters of credit were issued by a diversified U.S. financial institution on behalf of the Company to secure certain of the Company's customers' soft dollar credit balances, only in the event of the Company's bankruptcy. These letters of credit have final expiration dates of June 30, 2013 for \$1,200,000 and December 31, 2014 for \$5,500,000. At March 31, 2013, no amounts had been drawn under any of the letters of credit.

Cash Segregated in Compliance with Federal Regulations

The Company had \$1,100,000 in cash at March 31, 2013 segregated in special reserve bank accounts for the benefit of customers under Rule 15c3-3 of the SEC.

Securities Borrowed and Loaned

Securities borrowed and securities loaned are collateralized financing arrangements that are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions are used by the Company to facilitate the settlement process and require the Company to deposit cash, letters of credit or other collateral with the lender. The Company also has a securities borrowing and lending matched book business, in which it borrows securities from one party and lends them to another party.

The amount of collateral required to be deposited for securities borrowed is an amount generally in excess of market value of the securities borrowed. For securities loaned, the Company receives collateral in the form of cash that typically exceeds the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned daily, with additional collateral obtained, or refunded, when deemed appropriate.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

When the Company borrows securities, it provides cash to the lenders as collateral and earns interest income. Similarly, when the Company lends securities to another party, that party provides cash to the Company as collateral and the Company pays interest expense. Interest income and interest expense are recorded in income or expense for these securities borrowing/lending activities.

Collateralized Financing Agreements

In the normal course of business, the Company obtains securities borrowed on terms that permit it to repledge or resell the securities to others. At March 31, 2013, the Company obtained securities with a fair value of \$25,551,999 on such terms, of which \$16,031,757 have been either repledged or otherwise transferred to others in connection with the Company's financing activities or to meet customers' needs. At March 31, 2013, the Company pledged securities to securities loaned transactions that can be sold or repledged by the third party at a value of \$60,532,472.

Receivable from and Payable to Customers

Amounts receivable from and payable to customers represent contractual amounts from securities transactions and are reported on a settlement-date basis. Securities owned by customers, other than those fully paid for, are held as collateral for receivables. Such collateral is not reflected on the statement of financial condition.

Transaction Fees and Other Receivables, Net

Transaction fees and other receivables are reported net of an allowance for doubtful accounts of \$917,543. The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

Transaction Fees

Transaction fees are generated by customers trading securities and are charged on a per share basis. Transaction fees are recorded on a trade-date basis.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Rebates from Market Centers and Exchanges and Rebates to Customers and Broker-Dealers

Instinet recognizes rebates from market centers and exchanges that relate to credits received from certain market centers and exchanges for posting transactions into their order books. These credits are accounted for on a trade-date basis in income. Conversely, when clients provide liquidity to market centers through Instinet, they may also receive credits, which are accounted for as an expense on a trade-date basis.

Soft Dollar Arrangements

Customers are permitted to allocate a portion of their gross commissions to pay for research products and other qualifying services provided by third parties or NHI affiliates. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. A significant portion of the Company's transaction fee revenue is the result of trading activity executed under such arrangements. The Company's customers are under no obligation to place any minimum volume of trades with the Company, nor is the Company obligated to provide any services or benefits to customers under these arrangements before payment is received.

Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, provides a "safe harbor" to trading advisors to use soft dollars generated to obtain investment research and brokerage services that provide lawful and appropriate assistance to the advisor in the performance of investment decision-making responsibilities.

Soft dollar expense primarily relates to the accrual for third-party or related party research products (to be directed to various vendors by the Company's underlying customers) and is recorded on a trade-date basis. The Company reports its transaction fee revenue from soft dollar customers gross of its soft dollar expense, as it is the primary obligor under such arrangements.

Instinet recorded \$5,263,861 of prepaid soft dollar expenses, net of an allowance for doubtful accounts of \$350,783, in transaction fees and other receivables, net on the statement of financial condition. The Company also recorded \$43,463,818 of accumulated soft dollar credits in accounts payable on the statement of financial condition.

Under its T*Share program, the Company arranges for customers to trade with multiple brokers while centralizing the payment of soft dollar expenses at the Company. Participating brokers reach an agreement with Instinet to transfer trading and commission data, as needed. The Company charges the executing brokers an administrative fee recorded in income. The Company records a receivable from executing brokers in transaction fees and other receivables, net and a corresponding payable in accounts payable on the statement of financial condition.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Clearing, Brokerage and Exchange Fees

Clearing, brokerage and exchange fees relate primarily to the fees charged by market centers or regulators for trading and clearing transactions, and the costs incurred for market data content for U.S.-based clients. Trading-related costs are recorded on a trade-date basis.

Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are re-measured into U.S. dollar equivalents using period-end spot foreign exchange rates while income and expenses are re-measured at the average exchange rates during the year. Gains and losses resulting from foreign currency re-measurements are included in income or expense as applicable.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the statement of financial condition carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized as income or expense as applicable in the period that includes the enactment date.

In accordance with ASC 740, *Income Taxes* ("ASC 740"), the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. These income tax positions are measured at the largest amount that is greater than 50% likely of being realized based on a cumulative probability approach. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of March 31, 2013, the Company did not identify any unrecognized tax positions that should be recorded with respect to its tax positions in accordance with ASC 740-10.

The Company's policy is to treat interest and/or penalties, if any, related to income tax matters and uncertain tax positions as part of pretax income.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

2. Significant Accounting Policies (continued)

Derivatives

From time to time, the Company may enter into forward foreign currency contracts to facilitate customers' settling transactions in various currencies.

The Company enters into forward foreign currency contracts with third parties, with terms generally identical to its customers' transactions, thereby mitigating its exposure to currency risk. These typically do not extend beyond 14 days. The realized and unrealized gains and losses resulting from these transactions are recognized in income or expense as applicable during the period in which they are incurred. All derivative instruments are presented at their fair value. As of March 31, 2013, the Company recorded in the statement of financial condition a receivable of \$16,881 in receivable from broker-dealers and clearing organizations and a payable of \$16,819 in payable to broker-dealers and clearing organizations.

3. Receivable from and Payable to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to broker-dealers and clearing organizations as of March 31, 2013, consist of the following:

| | <u>Receivable</u> | <u>Payable</u> |
|---------------------------------------------------|-----------------------|-----------------------|
| Securities failed-to-deliver/receive | \$ 47,741,221 | \$ 122,150,212 |
| Receivable/payable from/to clearing organizations | 52,493,873 | — |
| Trade date receivable, net | 79,584,338 | — |
| Fees and other receivable/payable | 17,738 | 977,530 |
| | <u>\$ 179,837,170</u> | <u>\$ 123,127,742</u> |

Fail to deliver balances arise when the Company does not deliver securities on settlement date. The Company records the selling price of the security as a receivable due from the purchasing broker-dealer. The receivable is collected upon delivery of the securities. Fail to receive balances arise when the Company does not receive securities on settlement date. The Company records the amount of the purchase price of the security as a payable due to the selling broker. The liability is paid upon receipt of the securities.

Receivables from clearing organizations relate to clearing deposits required by clearing organizations. The Company provides additional deposits as requested by clearing organizations.

Trade date receivable, net relates to trades done by certain clients that settle their trades with Instinet prior to the regular-way settlement date. Instinet records the net of all such transactions with clearing organizations as a receivable or a payable.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

4. Deferred Compensation

Some of the Company's employees were granted notional deferred equity units in May 2011 and June 2012 as part of their overall year-end bonus award. This applied to the fiscal years ending March 31, 2011 and 2012, respectively.

Types of awards granted included Notional Stock Units ("NSU") of NHI, Collared Notional Stock Units ("CSU") of NHI and Notional Indexed Units ("NIU") which are based on the value of the MSCI Daily TR Net World USD Fund (ticker: NDDUWI:IND).

Awards issued vest over a specified period of time and are payable to the holder in cash as full settlement. The vesting schedule of awards outstanding during the current year is as follows:

FY2011 – NSUs vesting annually in equal increments over a three year period beginning April 30, 2012 and CSUs and NIUs vesting quarterly in equal increments over a three year period beginning June 30, 2011.

FY2012 – NSUs vesting annually in equal increments over a three or five year period beginning April 30, 2013 and CSUs and NIUs vesting quarterly in equal increments over a three or five year period beginning June 30, 2012.

The Company's ultimate payment is contingent on the fair market value calculation at the vest date. The monthly balance is based on the number of outstanding units by type of award, the amount of months since issuance divided by the overall vesting period for each component and the month end fair market value for the respective award. During the year ended March 31, 2013, the Company recorded its allocated share of \$7,324,863 in accrued compensation on the statement of financial condition.

The Company recorded \$3,393,443 as a reduction in accrued compensation on the statement of financial condition for the amounts paid to employees during the year ended March 31, 2013.

5. Related Party Transactions

At March 31, 2013, balances with related parties are included in the following statement of financial condition captions:

| | |
|---------------------------------------------|--------------|
| Assets | |
| Transaction fees and other receivables, net | \$ 2,880,636 |
| Receivable from customers | 576,115 |
| Receivable from affiliates | 10,955,712 |
| Liabilities | |
| Accrued expenses and other liabilities | \$ 2,213,380 |
| Payable to affiliates | 8,432,073 |

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

5. Related Party Transactions (continued)

Instinet and its affiliates entered into a cross-border agreement and a profit sharing agreement as of April 1, 2009. The cross-border agreement requires each affiliate to record revenue and associated brokerage, clearing and exchange (“BCE”) costs for all the securities cleared and settled by each affiliate. Consequently, the Company began recording all revenues and BCE costs associated with U.S. and South American equities (through its relationships with local brokers) as of April 1, 2009.

The global profit sharing agreement provides for a routine return on expenses that are not linked to revenue drivers (defined as customer relationship or technology), along with a sharing of global residual profit along the defined revenue drivers.

The Company believes that this method, adopted on April 1, 2009, is compliant with the relevant tax rules in all jurisdictions in which it does business.

Instinet Group, LLC (“IGLLC”), is a wholly owned subsidiary of IHI that provides various services to the Company. Pursuant to an operating agreement, IGLLC provides the Company with operational, management and administrative personnel, facilities and other services necessary to conduct its business in exchange for a fee. The service fee is equal to IGLLC’s eligible expenses, net of interest income, plus 5%.

IGLLC manages facilities for IHI and its U.S. affiliates and allocates occupancy expenses to the Company based on headcount.

IHI manages the U.S. IT support on behalf of its U.S. affiliates and allocates IT infrastructure and network support expenses to the Company based on headcount.

The Company provided various operational, management and administrative personnel services to Meet the Street, LLC, a subsidiary of IHI, through January 1, 2013.

The Company earns revenue for certain execution services provided to Nomura Securities International, Inc. (“NSI”) for trading in U.S. securities.

As part of NHI’s global initiatives announced in September 2012, equities execution services in all countries will be centralized through Instinet, except where Instinet does not have a local presence (primarily Japan and a few other Asian markets). As such, certain employees were transferred to Instinet during the year, along with their existing deferred compensation and accrued compensation while working at NSI or Nomura Holding America Inc. (“NHA”).

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

5. Related Party Transactions (continued)

Further, equities execution clients from NHI affiliates globally have been on-boarded as Instinet clients. Some of these accounts consume research services from NHI's affiliates. Instinet agreed to set aside as soft dollar expenses a portion of the commission collected for such mutual clients consuming related party research.

Substantially all employees of the Company participate in a defined contribution pension plan sponsored by IHI. The IHI Savings Plan ("401(k) Plan") was established under Section 401(k) of the Internal Revenue Code. Eligible employees can contribute up to 50% of their annual base salary to the 401(k) Plan. IHI matches a discretionary amount of the employees' pre-tax contributions. To be eligible for the contribution, an employee needs to be an active employee as of March 31, 2013 with at least three months' service.

For the 2011 NSU Plans, Nomura International PLC entered into an economic hedge on behalf of itself and certain affiliates for which Instinet, LLC recorded its allocated profit of \$669,998 in the statement of financial condition.

6. Commitments, Contingencies and Guarantees

The Company's business activities are highly regulated in many jurisdictions and subject to frequent regulatory examinations, inquiries and investigations. From time to time, the Company may become involved in legal and regulatory proceedings arising in the ordinary course of business or other circumstances. While any litigation contains an element of uncertainty, management believes, after consultation with counsel, that the outcomes of currently known legal or regulatory proceedings or related claims are unlikely to have a material adverse effect on the Company's statement of financial condition.

In the normal course of business, the Company may enter into legal contracts that contain a variety of representations and warranties that provide general indemnification to others. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be asserted against the Company that have not yet occurred.

However, based on the Company's experience, the Company does not expect that any such indemnifications will have a material adverse effect on the Company's statement of financial condition.

The Company is committed under contracts with certain key employees to pay guaranteed bonuses of \$200,000 for the year ended March 31, 2014, but nothing thereafter.

Instinet, LLC

(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

7. Credit, Market and Other Risks

The Company is exposed to market risk from its customers' securities transactions during the period between the transaction date and the settlement date. The settlement cycle is generally three business days in the U.S. equities markets and can be as much as five days in some international markets. In addition, the Company may have exposure that extends beyond the settlement date in the case of a party that does not settle in a timely manner by failing either to make payment or to deliver securities. The Company holds the securities that are the subject of the transaction as collateral for its customer receivables. Adverse movements in the prices of these securities can increase the Company's market risk.

The majority of the Company's transactions, including derivatives and, consequently, the concentration of its credit exposure are with broker-dealers and other financial institutions, primarily located in the United States.

The Company seeks to manage its risks through a variety of reporting and control procedures, including establishing credit limits and credit standards based upon a review of the counterparty's financial condition and credit ratings. The Company monitors trading activity and collateral levels on a daily basis for compliance with regulatory and internal guidelines and obtains additional collateral, if appropriate.

The Company uses securities borrowed and loaned transactions to facilitate the settlement process to meet its customers' needs and to enter into equity finance transactions. Under these transactions, the Company either receives or provides collateral, generally cash or securities.

In the event the counterparty is unable to meet its contractual obligations to return the pledged collateral, the Company may be exposed to the market risk of acquiring the collateral at prevailing market prices.

The Company is subject to operational, technological and settlement risks. These include the risk of potential financial loss attributable to operational factors such as untimely or inaccurate trade execution, clearance or settlement or the inability to process large volumes or transactions.

The Company is also subject to risk of loss attributable to technological limitations or computer failures that may constrain the Company's ability to gather, process and communicate information efficiently, securely and without interruption.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

8. Income Taxes

For tax purposes, the Company is disregarded as an entity separate from its single member, IHI, pursuant to U.S. Income Tax Regulations Sec. 301.7701-3(b)(1)(ii). The Company pays to or recovers from IHI the taxes it has recorded, which are calculated on a separate company basis under a tax sharing agreement with IHI. The Company, together with IHI and certain other subsidiaries in the United States, is included in a consolidated Federal income tax return, and consolidated or combined state and local income tax returns.

The Company has net deferred tax assets of \$7,647,001 which relate to temporary differences at March 31, 2013 primarily consisting of soft dollar expenses and compensation based accruals. Management believes that it is more likely than not that the deferred tax assets will be realized.

The Internal Revenue Service ("IRS") has conducted a routine federal income tax audit of the Company for the short period December 8, 2005 to December 31, 2005, calendar year ended December 31, 2006, short period January 1, 2007 to January 31, 2007, short period February 1, 2007 to March 31, 2007 and the fiscal years ended March 31, 2008 and March 31, 2009.

The Company has reached a basis of settlement with the IRS related to a proposed adjustment in the timing of the deduction for certain expense items. As a result of this settlement, a liability treated as "assumed" for reporting the acquisition of the Company by Silver Lake Partners L.P. in December 2005 was recharacterized as a "contingent" liability. This allowed the Company to record in the current year a deduction for the full amount of the liability.

The IRS has commenced a routine federal income tax audit of the Company for the fiscal years ending March 31, 2010, March 31, 2011 and March 31, 2012. The Company has included the carryforward of the prior audit agreed basis for settlement in the deferred taxes. The IRS has not proposed any additional adjustments at this time.

Additionally, the Company is currently under routine audits by various state and local tax jurisdictions for the short period December 8, 2005 to December 31, 2005, calendar year ended December 31, 2006, short period January 1, 2007 to January 31, 2007, the short period from February 1, 2007 to March 31, 2007, and the years ended March 31, 2008 to March 31, 2011.

For tax purposes, the Company is amortizing intangible assets initially recorded in 2001 over 15 years. Such intangible assets were written-off for book purposes during 2005. As a result of the acquisition of the Company by Silver Lake Partners L.P. in December 2005, the annual tax amortization expense for these intangible assets has been limited in accordance with IRC Section 382. As of November 2010, the IRC Section 382 limitation period of 5 years ended and the Company is able to deduct the full amount of the amortization.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

8. Income Taxes (continued)

As stated in “2. Significant Accounting Policies” above, the Company did not identify any unrecognized tax positions that should be recorded. Additionally, as of the date of this report, the Company does not believe that the tax audits will result in a significant increase in unrecognized benefits.

The Company does not believe that it is reasonably possible that any significant unrecognized tax benefits will be recorded within the next twelve months.

9. Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements*, requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the statement of financial condition. Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity. ASC 820 establishes the following three hierarchies for fair value:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs other than quoted prices included in Level I that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level III – Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Assumptions include those of risk, both the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Instinet, LLC
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (continued)

9. Fair Value of Financial Instruments (continued)

Estimated fair value of financial instruments not carried at fair value

Certain financial instruments are not carried at fair value on a recurring basis in the statement of financial condition since they are neither held for trading purposes nor are elected for the fair value option. These are typically carried at contractual amounts due.

The carrying value of the majority of the following financial instruments will approximate fair value since they are liquid, short-term in nature and or contain minimal credit risk. These include Cash and cash equivalents, Securities borrowed, Other assets and Securities loaned.

The following table presents carrying values, estimated fair values and classification within the fair value hierarchy of those fair values for financial instruments which are carried on a basis other than fair value within the statement of financial condition as of March 31, 2013.

| | Carrying Value | Fair Value | Fair Value of Level I | Fair Value of Level II | Fair Value of Level III |
|---------------------------|-------------------|---------------|--------------------------|---------------------------|----------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 92,837,656 | \$ 92,837,656 | \$ 92,837,656 | \$ — | \$ — |
| Securities borrowed | 26,287,000 | 26,287,000 | — | 26,287,000 | — |
| Other assets | 1,982,745 | 1,982,745 | — | — | 1,982,745 |
| Liabilities | | | | | |
| Securities loaned | \$ 60,965,200 | \$ 60,965,200 | \$ — | \$ 60,965,200 | \$ — |

10. Regulatory Requirements

The Company is a registered broker-dealer and, accordingly, is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1") under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company has elected to use the alternative net capital method, permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital equal to the greater of \$1,000,000 or 2% of aggregate debit items arising from customer transactions.

At March 31, 2013, the Company had regulatory net capital of \$104,182,297 which was \$100,477,920 in excess of its required net capital of \$3,704,377. The Company's ratio of net capital to aggregate debit items was 56.25%.

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Notes to the Statement of Financial Condition (continued)

10. Regulatory Requirements (continued)

Additionally, under Rule 15c3-3, the Company had cash on deposit of \$1,100,000 in the special reserve bank account for the exclusive benefit of customers, with no required deposit at March 31, 2013. The Company deposited an additional \$6,100,000 in the special reserve bank account for the calculation performed as of March 31, 2013, resulting in cash on deposit of \$7,200,000 effective April 2, 2013.

Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies. The Company did not require any such notification during the year ended March 31, 2013.

The Company has commenced commodity futures brokerage activity. Instinet acts solely as an introducing broker and neither executes nor clears commodity futures transactions with its customers. CFTC has a \$1,000,000 minimum capital requirement that applies to the Company's futures activity.

11. Subsequent Events

The Company has evaluated subsequent events through May 29, 2013, the date as of which the statement of financial condition is being issued.

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